Group Chief Executive's review

Delivering sustainably higher returns

Bill Winters
Group Chief Executive

We produced strong results in 2023, demonstrating the value of our franchise and delivering our target to push past the 10 per cent Return on Tangible Equity ('RoTE') milestone. But 10 per cent is not the extent of our ambition. We have the right strategy, business model and intent to build on this momentum. We have set out clear actions to deliver sustainably higher returns, with RoTE increasing steadily from 10 per cent, targeting 12 per cent in 2026, and to progress thereafter.

Full year 2023 income of $17.4 billion was up 13 per cent on a constant currency basis, benefitting not only from rising interest rates but also encouraging underlying business momentum. Good cost discipline has enabled us to generate significantly positive income-to-cost jaws of 4 per cent for the year, even with continued underlying investment. Loan impairment declined, primarily due to reduced impairments from China commercial real estate and sovereign risks, with the overall portfolio remaining resilient. All this has helped us grow underlying profit before tax 27 per cent year-on-year, to $5.7 billion, the highest level for ten years.

We remain highly liquid and strongly capitalised. We finished the year with a Common Equity Tier 1 ('CET1') ratio of 14.1 per cent, above the top of our target range, allowing us to increase our full year ordinary dividend by 50 per cent to 27 cents per share. We undertook in February 2022 to return over $5 billion to shareholders by the end of 2024. With this full year dividend and the $1 billion share buyback announced today, we will have exceeded that target well ahead of schedule.

As we start the new year, I would like to take a moment to thank my friend and much valued colleague, Andy Halford, who decided to retire this year. Andy has been a great partner to me and the Board and has successfully helped steer the Group over the last ten years. I'd also like to extend a warm welcome to Diego De Giorgi as he takes over as the Group Chief Financial Officer. Diego brings with him over 30 years of financial services experience and I am sure he will continue to build on the progress we have made.

Our strategy is driving success

Our strategy is designed to deliver our Purpose: to drive commerce and prosperity through our unique diversity. We set out four strategic priorities in early 2021: continue to grow our **Network** and **Affluent client** businesses, return to growth in **Mass Retail** and advance on all fronts of our **Sustainability** agenda. We are making good progress in every area.

- Income from our cross-border **Network** business grew 31 per cent in 2023, with standout growth rates in our China offshore corridors to the Middle East and ASEAN, up 67 per cent and 53 per cent respectively
- We increased the total number of **Affluent clients** to 2.3 million. This helped drive significantly higher levels of net new money in 2023, with net inflows of $29 billion, up 50 per cent, year-on-year, and deliver 24 per cent growth in income from this client segment
- We grew our **Mass Retail** client base by over 1 million to 9.5 million. We have continued to grow our digital banks, Mox in Hong Kong and Trust in Singapore. They remain two of the fastest growing digital banks globally and underline our ability to partner and launch differentiated customer propositions. The Mass Retail business also serves a valuable strategic purpose as a pipeline for future Affluent clients, with 224,000 of our Mass Retail clients moving up to Affluent clients in 2023
- Our dedicated Chief Sustainability Office unit acts as a centre of excellence and a catalyst for the execution of the Group-wide **Sustainability** strategy and the achievement of our net zero roadmap, further details of which are set out in the Annual Report. Our Sustainable Finance franchise generated over $0.7 billion income in 2023, a year-on-year growth rate of 42 per cent and we are well on our way to deliver a billion dollars in income by 2025. We have mobilised $87 billion of sustainable finance since the beginning of 2021, making good progress as we advance towards our $300 billion target by 2030

Great execution on our 2022 strategic actions

We set out five actions in 2022 designed to accelerate delivery of double-digit RoTE. The strong execution of these actions over the last two years, where we have either achieved our targets ahead of plan or they are well on track, has enabled us to reach that milestone in 2023.

- We are ahead of schedule to **drive improved returns** in Corporate, Commercial & Institutional Banking ('CCIB'). We targeted around 160 basis points improvement in income return on risk-weighted assets ('IRoRWA') to 6.5 per cent in 2024. The team exceeded this target in 2023, delivering an IRoRWA of 7.8 per cent. This was driven by particularly strong growth in income from Financial Institution clients, which now accounts for 49 per cent of CCIB income, delivering close to the 50 per cent target one year early. The team has also successfully executed $24 billion in risk-weighted assets optimisation over the last two years, exceeding the target of $22 billion. The completion of the sale of the Aviation Finance business also created further capacity for CCIB to grow higher returning business
- We are also ahead of our 2024 target to **transform profitability** in Consumer, Private and Business Banking ('CPBB'). The team has achieved its 60 per cent cost-to-income target one year ahead of plan, with a nine-percentage point improvement in 2023. They have delivered $0.4 billion of structural expense savings from rationalising the branch network, process re-engineering, headcount efficiencies and further automation
- We have continued to **seize the China opportunity**, with our China-related business performing well, despite post-COVID domestic recovery tracking below expectations. We set a target of doubling the operating profit before tax of our onshore and offshore China business by the end of 2024 and we almost achieved that in 2023, generating $1.3 billion. This was driven primarily by offshore-related income, which delivers significantly higher returns, growing 42 per cent. Our onshore income, despite the domestic headwinds, grew 4 per cent. Looking forward, we continue to be confident in the long-term opportunities that China re-opening will generate for our unique franchise
- We continued to **create operational leverage**, and are on track to deliver the three-year $1.3 billion expense savings target, which has helped us absorb inflationary pressure and continue to invest. Our cost-to-income ratio is down 7 percentage points since the end of 2021 to 63 per cent for 2023, so we are well advanced towards our target of around 60 per cent by 2024
- Our equity generation and discipline on risk-weighted assets this year have created capacity for us to continue to **deliver substantial shareholder distributions**. With the final ordinary share dividend for 2023 and a new $1 billion share buyback programme starting imminently, means we are well ahead of our total target of returning in excess of $5 billion by the end of 2024. We will continue to actively manage the Group's capital position with the target of a further capital return of at least $5 billion over the next three years

Group Chief Executive's review
continued

Building on our achievements to deliver sustainably higher returns

Our unique footprint across the world's most dynamic markets gives us a strategic advantage and underpins my confidence that we can continue to grow even in a less supportive interest rate environment. Our objective is to ensure that income growth translates into structurally higher profitability, striking a balance between maintaining the diversity that our clients value, while taking out unnecessary complexity that slows us and drags returns.

We are therefore taking further action in each of our three client businesses to drive income growth:

- In CCIB, we will seek to **drive growth in high-returning businesses** such as cross-border income, targeting an 8 to 10 per cent underlying growth rate over the next three years. Additionally, building on our strength as a top two network trade bank, we are targeting to grow Trade and Working Capital income by 6 to 8 per cent between 2024 and 2026. The team is also driving growth in financing related income (Global Credit and Lending) with a particular focus on accelerating the originate to distribute strategy, targeting an 8 to 10 per cent CAGR to 2026
- In CPBB, we will **build on our strengths in the Affluent client business**, targeting to attract over $80 billion of net new money over the next three years, a 19 per cent increase from the previous three years. We also intend on accelerating the growth in our international client business, with the target of increasing the number of international Affluent clients from 274,000 to over 375,000 by 2026
- Building on the remarkable momentum in our two digital banks, Mox and Trust, we are targeting for the **Ventures segment to be RoTE accretive** by 2026

By executing these actions, we expect to grow income at a compound annual rate of between 5 and 7 per cent over the next three years, well above the anticipated rate of growth for the global economy.

We are also taking action to transform the way we operate, addressing structural inefficiencies and complexity whilst protecting income. Starting this year, we will run a bank-wide programme called Fit for Growth, to accelerate our previous efforts to simplify, standardise and digitise our business. We will fundamentally improve our productivity, client and employee experience and create capacity to reinvest in incremental growth initiatives.

This programme will save around $1.5 billion of cumulative expenses over the next three years and we expect to incur a similar amount in terms of the cost to achieve these permanent organisational and financial benefits. This will help us to deliver positive income-to-cost jaws in each of the next three years and keep operating expenses below $12 billion in 2026.

Continuing to deliver strong income growth, combined with improving operational leverage and maintaining our responsible approach to risk and capital, means we expect RoTE to increase steadily from 10 per cent, targeting 12 per cent in 2026 and to progress thereafter.

Uniquely positioned and confident in the future

We are in a privileged position to take advantage of significant growth opportunities that will continue to come from the markets in our footprint, generating value for our clients and the communities in which we operate.

Whilst we expect global growth to stay below potential at 2.9 per cent in 2024, as high interest rates put a drag on consumers as well as investment spending, Asia is likely to be the fastest-growing region continuing to drive global growth, expanding by 4.9 per cent. Easing inflation is likely to allow major central banks to start cutting rates in the second half of 2024, with a focus on supporting softening economic activity.

Downside risks to this outlook include a sharper than expected slowdown in major economies, sustained inflationary pressures, a sluggish housing market in China and increased geopolitical tensions. But we also see significant opportunities emerging:

- Higher capex to meet sustainability targets and moves towards digitalisation could boost productivity growth
- Within emerging markets, countries in Asia are best placed to take advantage of digitalisation, including generative AI
- Relatively younger populations, as well as the adoption of digital technology, will allow emerging markets to become increasingly important to global growth

Our share price reflects little of our optimism about prospects and seems heavily influenced by the downside concerns mentioned above. The concerns are real, and we take them seriously. We maintain a strong capital position and liquidity to absorb any adverse impact on us and our clients. We believe that the value of our franchise will become increasingly clear to the broader market as we continue to grow our profits and exceed market expectations in those very areas of most concern.

In conclusion: significant progress with ambition for more

We delivered a strong performance in 2023, achieving our 10 per cent RoTE milestone, while maintaining a strong balance sheet and a robust capital position. But we know we must do more.

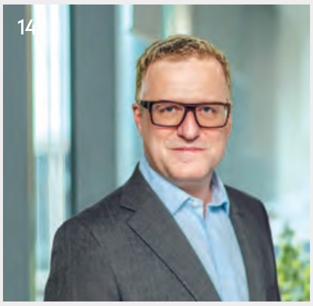
We have made significant progress on our five strategic actions, with most targets either delivered ahead of plan or well on track, providing a strong platform to grow and drive sutainably higher returns. And while much external uncertainty persists, we are optimistic for the markets and strength of our businesses in our footprint. But we are far from complacent, and my Management Team and I remain focused on delivering on our targets, seizing the growth opportunities we have, driving a culture of excellence and creating exceptional long-term value for our clients, shareholders and communities.

Finally, I would like to acknowledge the remarkable efforts of our colleagues again this year. Their impressive dedication to our customers and the communities that we serve help to manifest our brand promise to be here for good.

Bill Winters
Group Chief Executive

23 February 2024

Management Team



1. **Bill Winters**
   Group Chief Executive
2. **Diego De Giorgi**
   Group Chief Financial Officer
3. **Simon Cooper**
   CEO, Corporate, Commercial & Institutional Banking and Europe & Americas
4. **Claire Dixon**
   Group Head, Corporate Affairs, Brand and Marketing
5. **Judy Hsu**
   CEO, Consumer, Private and Business Banking
6. **Mary Huen**
   CEO, Hong Kong and Cluster CEO for Hong Kong, Taiwan and Macau
7. **Benjamin Hung**
   CEO, Asia
8. **Tanuj Kapilashrami**
   Group Head, Human Resources
9. **Sunil Kaushal**
   CEO, Africa & Middle East
10. **Roel Louwhoff**
    Chief Technology, Operations and Transformation Officer
11. **Tracey McDermott, CBE**
    Group Head, Conduct, Financial Crime and Compliance
12. **Sandie Okoro**
    Group General Counsel
13. **Sadia Ricke**
    Group Chief Risk Officer
14. **Paul Day***
    Group Head, Internal Audit

* Paul represents Group Internal Audit as an invitee at Management Team meetings